



**Federal Pre-Budget Submission  
The Standing Committee on Finance**

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**Canadian Convenience Stores Association**

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## EXECUTIVE SUMMARY

Small businesses are the backbone of Canada's economy. The convenience store industry contributes more than \$51 billion to the Canadian economy every year, including over \$18 billion in taxes collected on behalf of federal and provincial governments (\$7 billion in federal tax alone).

Our stores help **Canadians** by providing employment opportunities to over 230,000 people each year and contributing to Canada's economic growth, and we support **communities** by providing essential products in urban, rural and remote areas. With nearly 27,000 retail locations across Canada, serving over 10 million people a day, convenience stores are truly the heart of our economy, right in your neighbourhood.

The CCSA was established to act as the voice of Canada's 27,000 convenience stores and their employees. The CCSA achieves its goals across Canada by working with four affiliated regional associations in Western Canada, Ontario, Quebec, and Atlantic Canada.

Our pre-budget submission for 2017 provides an overview of some of the challenges facing our stores, including:

- Unreasonably high credit card fees;
- Excessive tobacco regulations;
- Tax rates on our products and businesses;
- The availability of counterfeit products in the market.

There are also opportunities for government to partner with our small business members to stimulate economic growth, encourage employment or to better protect the safety of Canadians, including:

- Regulating the sale of electronic cigarettes;
- Providing tax incentives and grants to help retailers transition to offering healthier products in store;
- Proactively tackling Canada's contraband tobacco trade;
- Ensuring competitive Employment Insurance (EI) premiums and an enhanced Canada Pension Plan (CPP) that remains fair for small business.

We have developed a number of recommendations for consideration by the Committee:

### BUSINESS OPERATION RECOMMENDATIONS:

- Reduce excessive credit card swipe fees and bring fairness and transparency to the payments industry in Canada;
- Recognize the effect of compounding regulation on small business and work with the provinces and municipalities in efforts to reduce red tape;

- Consult with the convenience store industry before any new regulation is introduced that would impact our small business operators to ensure that the regulation is necessary and, if so, is as operationally efficient as possible; and
- Lower the small business tax rate as soon as reasonably possible.

#### **TOBACCO RELATED RECOMMENDATIONS:**

- Reconsider the implementation of plain-packaging for tobacco products in Canada, and work with retailers to determine a more effective solution to deterring tobacco consumption;
- Expedite and enforce the criminal fine recovery process, which will deter illegal tobacco activity;
- Contribute to public awareness on the dangers of illegal tobacco;
- Maintain the existing tobacco tax rate so as not to create demand for contraband tobacco; and
- Introduce and enforce regulation on the sale of electronic cigarettes including authorizing the sale of liquid nicotine in Canada for use in electronic cigarettes.

#### **HEALTHY C-STORE RECOMMENDATIONS:**

- Work with the CCSA to educate retailers and consumers on the dangers of purchasing and selling grey-market confectionary and beverage products;
- Support further collaboration between the Canada Border Services Agency (CBSA) and Canada Food Inspection Agency (CFIA) inspectors to identify and prevent grey market products from infiltrating the domestic market.
- Create a tax incentive for retailers that would allow for the transition to healthier products in convenience stores;
- Develop a grant or rebate program that would apply to in-store equipment and infrastructure, thereby enabling retail stores to sell healthier products in under-served communities and address food deserts in rural Canada; and

## CHALLENGES FACING OUR INDUSTRY

Convenience stores contribute to the economy of every community in Canada from coast to coast to coast. Programs including our Responsible Community Retailing Initiative (RCRI) is a commitment to assist retailers and staff in upholding the highest standards of professionalism and ethical conduct in supporting health and safety.

### CHALLENGE: EXCESSIVE TOBACCO REGULATIONS and CONTRABAND TOBACCO

One of the primary issues impacting Canada's convenience store retailers is the continued trafficking and sale of illegal tobacco. These tobacco products do not comply with Canada's regulations, specifically regarding taxation, importation, stamping, manufacturing, sale to youth and distribution.

The negative impact of the illegal tobacco trade includes lost revenue for government, linkages to organized crime and affordability and accessibility to youth.

As displayed in the chart below, based upon research the CCSA has conducted, contraband tobacco rates remain alarmingly high across the country:

| Province         | Contraband Rate (2015) | Province                               | Contraband Rate (2015) |
|------------------|------------------------|--|------------------------|
| British Columbia | 15% (Average)          | Quebec                                 | 16% (Average)          |
| Alberta          | 9.8% (Average)         | Nova Scotia                            | 21.8% (Mean)           |
| Saskatchewan     | 6.3% (Average)         | New Brunswick                          | 23.8% (Mean)           |
| Manitoba         | 12.7% (Average)        | Newfoundland and Labrador (St. John's) | 11.4% (Mean)           |
| Ontario          | 22% (Average)          | PEI                                    | No Data                |

The problem of illegal tobacco is inevitably made worse by excessive regulation on legal tobacco products. Measures such as flavoured tobacco bans, as well as plain packaging of tobacco products drive sales underground as these restrictions don't apply to illegal tobacco. While these restrictions are designed to curb tobacco consumption, our Association feels there are other more effective measures that can be introduced to do so, and we would like to explore these alternatives with the federal government.

Maintaining a consistent tax rate on tobacco products is also critical for our retailers. In previous budgets when tobacco taxes sharply increased, our stores noticed an immediate loss in business, which we understand to have shifted to the contraband market. Reliable and predictable taxation levels, coupled with measures to address contraband tobacco trafficking (including effective criminal fine recovery and public education) are necessary measures to address this thriving illegal industry.

## **RECOMMENDATIONS FOR THE GOVERNMENT OF CANADA**

- Reconsider the implementation of plain-packaging for tobacco products in Canada, and work with retailers to determine a more effective solution to deterring tobacco consumption;
- Identify and implement means to expedite and enforce the criminal fine recovery process, which will deter illegal tobacco activity;
- Contribute to public awareness on the dangers of illegal tobacco through provision of existing translated material and other measures of public engagement; and
- Maintain the existing tobacco tax rate so as not to create demand in the contraband tobacco market.

### **CHALLENGE: EXCESSIVE CREDIT-CARD SWIPE FEES**

Credit card swipe fees in Canada remain amongst the highest in the world, creating significant challenges for Canada's small businesses. Credit card 'swipe fees' charged to Canadian convenience retailers range from 1.5% to 4%. Particularly for small business, these costs pose the greatest challenge to their ability to survive and compete effectively and continue serving communities across Canada.

The impact of these excessive fees constrain the ability of all retailers to invest in their businesses and their ability to hire new employees in the communities they serve. Also, these fees result in increased consumer prices, even for those consumers paying by cash or debit.

Reducing credit card swipe fees will benefit Canadians and communities as they will allow our small business members to increase investment in their businesses, create more jobs and to help reduce consumer prices.

## **RECOMMENDATION FOR THE GOVERNMENT OF CANADA**

- Review the merchant credit card rates charged to Canada's small businesses as other countries have done and, if those fees are found to be excessive, cap the fees to reasonable rates in order to bring fairness and transparency to the payments industry in Canada. As examples of other countries that have reviewed the rates charged to small business and deemed it necessary to introduce regulation to protect their small businesses, the EU has capped rates at 0.3% and Australia at 0.5%.

### **CHALLENGE: OVER REGULATION AND TAXATION**

Compounding regulation amongst federal, provincial and municipal government and jurisdictions lead to costly and time consuming regulations on small business. Regulation of the convenience store industry within Canada continues to expand annually which leads to declining growth and prosperity for small business owners. A study conducted by the CCSA in 2013 estimated that the cost per store to comply with regulations at the federal, provincial and municipal level is over \$10,000 per year, per site. This is a significant cost to small business owners and prevents such businesses from focussing on efforts to run their operations, hire new employees or invest in additional equipment or improvements.

When the costs for small businesses are reduced, Canadians and communities win. In addition to addressing unnecessary red tape in our industry, an overall reduction in the small business tax rate (which was outlined in the 2016 Budget) would be welcomed by our stores and allow us to employ more people and invest in our businesses.

#### **RECOMMENDATIONS FOR THE GOVERNMENT OF CANADA**

- Recognize the effect of compounding regulation on small business and work with the provinces in efforts to eliminate red tape;
- Consult with the convenience store industry before any new regulation is introduced that impacts our store operators to ensure that the regulation is necessary and, if so, is as operationally efficient as possible, and;
- Lower the small business tax rate as soon as reasonably possible.

#### **CHALLENGE: GREY MARKET CONFECTIONARY AND BEVERAGE PRODUCTS**

Each year there is a significant quantity of confectionery and beverage products manufactured in other countries that are openly imported and sold in Canada. These products do not comply with Canada's labeling requirements; are not traceable to their country of origin; and, in some cases, do not comply with federal ingredient requirements. Retailers who sell these products, known as "grey market goods", are unknowingly putting Canadian consumers and their businesses at risk. Working with the Government of Canada to educate retailers and consumers on these risks would reduce health and safety hazards to consumers and mitigate potential financial losses to businesses through reputational damage.

#### **RECOMMENDATIONS FOR THE GOVERNMENT OF CANADA**

- Work with the CCSA to educate retailers and consumers on the dangers of purchasing and consuming grey-market confectionary and beverage products;
- Provide educational opportunities for Canada Border Services Agency on how to spot grey market products so that they may be prevented from entering the market.

#### **OPPORTUNITY: ELECTRONIC CIGARETTES**

In accordance with current Health Canada regulations, our stores do not sell e-cigarettes that contain nicotine. Our retailers are growing frustrated as unlicensed competitors are openly selling these restricted products, without penalty. We provide a controlled, regulated environment for the sale of these products, and when approved, would be able to appropriately meet customer demand in a way that is responsible and consistent with other age-of-majority products.

As acceptance grows amongst public health professionals that these products can aid in smoking cessation, there is an opportunity for Canada's convenience store operators to help smokers transition off of combustible tobacco and allow a new product category into our stores which would make us less reliant on traditional tobacco sales.

## **RECOMMENDATION FOR THE GOVERNMENT OF CANADA**

- Introduce and enforce regulation on the sale of electronic cigarettes including authorizing the sale of liquid nicotine in Canada for use in electronic cigarettes.

## **OPPORTUNITY: HEALTHIER C-STORES AND ADDRESSING FOOD DESERTS**

Convenience stores are often the only source of fresh fruit and vegetables in rural and remote communities and in economically depressed urban areas. There is an important role that our stores may play in providing fresh, healthy products to communities that otherwise may not have access. With attractive incentives for our retailers, there is a unique opportunity to reduce the presence of food deserts across Canada.

## **RECOMMENDATIONS FOR THE GOVERNMENT OF CANADA**

- Create a tax incentive for retailers that would allow for the transition to healthier products on convenience stores;
- Develop a grant program for in-store equipment and infrastructure which can be used to provide healthier products in under-served communities, as a means of addressing food deserts.